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TESTIMONY OF

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COMMUNICATIONS AND INFORMATION

U.S. DEPARTMENT OF COMMERCE

ON

DEVELOPMENT OF MINORITY BUSINESS ENTERPRISES
IN THE TELECOMMUNICATIONS INDUSTRY

BEFORE THE

SUBCOMMITTEE ON MINORITY ENTERPRISE,
FINANCE, AND URBAN DEVELOPMENT

COMMITTEE ON SMALL BUSINESS

U.S. HOUSE OF REPRESENTATIVES

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Thank you, Mr. Chairman. It is my pleasure to testify before the House Small Business Committee's Subcommittee on Minority Enterprise, Finance, and Urban Development today on minority business development in telecommunications. The Administration views this issue as an important component of its major telecommunications policy undertaking, known as the National Information Infrastructure (NII) initiative. Under the leadership of Secretary Ronald Brown, the U.S. Department of Commerce is actively seeking to promote economic opportunity for minority-owned businesses in the NII. The Administration also supports minority participation in its Global Information Infrastructure initiative, which seeks to foster telecommunications advancements around the world.

My remarks today will address issues facing minority-owned businesses that seek to participate in the NII. In this regard, I will discuss the activities of the Administration, including the involvement of the National Telecommunications and Information Administration (NTIA), which I administer. I also will discuss the specific activities of NTIA's Minority Telecommunications Development Program, or MTDP. MTDP supports development of government policies that affect minority business participation in the telecommunications industry, and develops programs and activities to encourage minority ownership of telecommunications businesses.

I also want to emphasize the activities of the Commerce Department's Minority Business Development Agency (MBDA) with respect to telecommunications. MBDA and NTIA have worked cooperatively on various projects that would increase and strengthen minority entrepreneurship in telecommunications. Additionally, NTIA has provided training

on telecommunications issues to MBDA's network of Minority Business Development Centers (MBDCs). MBDCs provide business assistance to various types of minority-owned businesses around the country, including some telecommunications businesses. MBDA also commissioned a market analysis of the telecommunications industry in 1991, as discussed below.

THE NATIONAL INFORMATION INFRASTRUCTURE INITIATIVE

In this year's State of the Union Address, President Clinton called for enactment in 1994 of legislation to help ensure creation of a NII -- built around the "electronic superhighway" that has received so much media attention. Vice President Gore first announced the Administration's NII initiative in September 1993. The Administration believes that development of more advanced telecommunications and information systems in the United States can, should, and will benefit all Americans -- including members of minority groups -- by promoting economic development, improving the delivery of health care, education, and public safety services, and improving the quality of life.

It is not an exaggeration to say that, with the advent of the NII, we are standing at the threshold of a new way of life. It is a life in which Americans will be able to live where we wish without foregoing opportunities for useful and fulfilling employment; a life in which the best education, and all the vast resources of art, literature, and science can be available everywhere, not just in elite institutions or big city libraries; a life in which health and other

critically important social services can be available on-line, without waiting in line, when and where we need them.

With that vision in mind, the Administration has articulated five basic principles that should govern NII-related initiatives:

- (1) Preserve and enhance universal communications service,
- (2) Promote private investment in the infrastructure,
- (3) Provide and protect competition,
- (4) Ensure open access to the NII, and
- (5) Encourage flexible and responsive government action.

The Administration has pledged, as part of its NII undertaking, to work for passage of telecommunications reform legislation this year. Accordingly, the Administration is presently working with the sponsors of major legislation now pending in both the House (H.R. 3626 and H.R. 3636) and the Senate (S. 1822) to ensure that these principles will be taken into account in legislation.

MINORITY-OWNED BUSINESSES IN THE NII

Advances in the telecommunications and information infrastructure promise to make life better for all Americans, not just a privileged few. Minority communities, and minority businesses, will benefit from widespread availability and access to advanced

telecommunications and information services and facilities. We cannot simply assume, however, that all boats will rise with the incoming tide.

A key to full participation by minorities in the NII is being sure they are well-informed. In addition, the Administration must be adequately apprised of particular minority concerns. NTIA has worked vigorously during my tenure to make the minority community aware of potential for specific involvement in such initiatives.

- For example, last year I addressed organizations such as the National Association of Minorities in Cable (NAMIC), the National Association of Black-Owned Broadcasters, and the National Technical Association, the oldest association of black engineers, about the NII.
- In addition, NTIA's MTDP has made presentations to a number of minority organizations, including NAMIC, the Puerto Rico Chamber of Commerce, and interested parties at Morgan State University about the NII.
- Most recently, on Tuesday, May 17, owners and representatives of several small, minority-owned businesses met with an interagency policy committee that I chair to share their views on the NII. These minority business owners are eager to participate in upcoming advances in the information infrastructure, and we gained valuable insight into their concerns.

NTIA has also received significant input from minority business and community leaders through a series of field hearings held throughout the country on universal service and open access. Deputy Secretary of Commerce David Barram and I, with Commissioner Andrew Barrett of the Federal Communications Commission (FCC) and state officials, have conducted hearings in Albuquerque, New Mexico, and south central Los Angeles, California, on universal service. Further hearings were conducted in Durham, North Carolina, and Sunnyvale, California, on open access to the NII. Witnesses in those hearings representing small and minority-owned information service providers discussed potential obstacles to minority entities not faced by businesses that are larger and better funded. These forums assist us in focusing on minority concerns to ensure their full participation as the NII continues to develop.

Data on the Involvement of Minorities in Telecommunications

Even prior to commencement of NII initiatives, NTIA has strived to be aware of available data on the involvement of minorities in telecommunications fields, to better understand the concerns of minority telecommunications firms. With regard to the broadcast industry -- a very important part of the NII -- NTIA's MTDP has actively collected data on the participation of minority-owned businesses.

Since 1990, MTDP has issued an annual report entitled Compilation and Statistics of Commercial Minority Broadcast Ownership. In the 1993 report, MTDP found that, as of

August 1993, there were 300 minority-controlled commercial broadcast radio and television stations in the United States, which represents 2.7 percent ownership (out of 11,021 total commercial stations). From 1992 to 1993, minority broadcast ownership decreased by ten stations.

Total participation of minorities in broadcast ownership may be somewhat higher than tabulated, because of the definition of minority ownership (more than 50 percent minority ownership) that MTDP used in collecting this data. In addition, the data in the report was compiled from readily available sources and may not reflect all licensed stations with some minority ownership.

NTIA is familiar with other data about minority involvement in telecommunications businesses. In fact, NTIA provided technical assistance to MBDA in connection with a market study that Symbiont, Inc. performed in 1991 for MBDA on this subject.

- In general, Symbiont identified 490 minority-owned telecommunications firms, including both telephone-related and mass media firms. The study found that only one half of one percent of the total number of firms in the industry were owned by minorities.
- The study identified 15 minority cable operators in the United States -- nine black, two Hispanic, two Native American, one Asian Pacific, and one Asian Indian. This

appeared to represent around two-tenths of one percent of the number of firms in the cable industry.

- The study identified only 11 minority firms engaged in the delivery of cellular, specialized mobile radio, radio paging, or messaging services.
- Minority-owned firms' greatest presence was in the telecommunications equipment manufacturing segment, where they made up 9.7% of the total number of firms.
- Revenues from all firms studied comprised less than half of one percent of total industry revenues.
- In addition, the study found that most of the minority-owned firms were small, and that access to financing was a major obstacle.

Thus, available data indicates that minority-owned businesses are generally underrepresented in telecommunications businesses. This Administration is committed to working with the Congress and the FCC to improve the existing underrepresentation of minorities in telecommunications and information industries.

Education and Training

At the hearing on universal service in Los Angeles, minority witnesses voiced concern about the need for education and training with regard to the NII, both for business owners and users of telecommunications and information services. The Clinton Administration is firmly committed to improving education and training for all Americans, and in so doing, ensuring that minority-owned businesses, in particular, can participate fully.

Obviously, broad-based educational initiatives will benefit all Americans, not just minorities. Access to the information infrastructure can help teach skills to both children and adults that will enrich their lives and better prepare them for the job market. Moreover, people who are familiar with the information infrastructure will be better prepared to enter business ventures related to the NII.

NII initiatives directly address education and training concerns. Vice President Gore announced earlier this year that an important goal of the NII initiative is to interconnect every American classroom, health care facility, and library by the year 2000, using public-private partnerships.

To help further this goal, NTIA initiated this year a matching grant program, the Telecommunications and Information Infrastructure Assistance Program (TIIAP), that will help fund demonstration projects by schools, libraries, health care facilities, and other

community organizations in support of the NII. Applications for the first round of grants were due on May 12, 1994, and NTIA received approximately 1,050 applications.

Minorities in particular will benefit from the TIIAP, because regulatory policies governing this program include the requirement that special consideration be given to grant applications that involve minorities. Among the grants that may benefit minority communities, Secretary Brown committed the award of at least one grant to an entity in an "empowerment zone" -- that is, an impoverished urban or rural area specially designated by the Department of Housing and Urban Development and Department of Agriculture to receive economic development incentives that will empower the community to improve economic and other conditions for the people within it.

While the TIIAP's goal is to fund projects that demonstrate useful technologies, the grant program will be especially helpful to people in communities that are less able to afford to pursue these projects without federal assistance. Our intent is to ensure that the best education and the best health services can be made available everywhere, not just at institutions with the largest endowments or communities with the most economic or political clout. I want to work to see that places like Howard University, as well as places like Harvard University, are connected to the NII, and that high school students in places like Bedford-Stuyvesant and Belair all have exposure to the NII. Statistical and anecdotal evidence suggest that it may be more important for the child in Bedford-Stuyvesant to have

access to information technologies in public institutions such as libraries and schools, because he or she may not have a computer at home. The child in Belair probably will.

In addition, it is also important to note that the grant projects funded through the TIIAP will serve as models for others to emulate. This will be helpful to those without experience in the telecommunications and information areas, including many minority organizations.

Improvements in education and access to technology alone, however, will not be sufficient to address the education and training concerns of minorities that were discussed at the universal service hearings in Los Angeles. Business training is critical for all entrepreneurial ventures and small businesses, including those owned by minorities. Entrepreneurial ventures are always risky, and well-developed public support can make a tremendous difference in whether a business will succeed, thereby creating new jobs, services, and products. While MTDP's primary mission is to increase minority ownership of communications businesses through policy input, MTDP also develops programs that focus on the specialized needs of minorities in the telecommunications industry. Some activities, which predate NII initiatives, also complement the Administration's current NII objectives.

For example, MTDP designed and implemented ComTrain, an executive management training program for new minority broadcast license owners. MTDP began the ComTrain program in June 1990, with funding from MBDA, to promote the viability of minority-

owned broadcasting. This program gives new minority broadcast owners an opportunity to spend two to five days at a successful commercial station, working closely with that station's general manager and department heads to study areas of broadcasting that are of specific interest to them. MTDP also provides trainees with information concerning broadcast management and station operation in advance of their training. In addition, ComTrain arranges free consultant services, volunteered from established broadcasters, to trainees once their stations are on the air. Private sector consultants visit the trainees' stations and offer hands-on advice.

Loretta Lever of Little Rock, Arkansas is a good example of a radio station owner who is a ComTrain success story. Ms. Lever, a black woman without broadcast management experience, came to ComTrain equipped with a construction permit from the Federal Communications Commission and the dream of owning a successful radio station. In 1992, through MTDP, Ms. Lever was paired with an Emmis Broadcasting radio station, WDCJ-FM in Boston, Massachusetts, where she received valuable advice on daily operations in the radio business and learned some of the pitfalls of ownership to avoid. Her station, WFXV-FM, has now been on the air for two-and-one-half years.

The ComTrain program has been successful since its inception. Both corporate sponsors and trainees have received benefits. There are currently 12 volunteer corporate sponsors of ComTrain that provide the training, most of which have participated in the program for all four years of its existence. Since June 1990, ComTrain has trained 19

minority radio or television licensees, and three more are scheduled for training. Nine of these stations are already on the air. Several owners whose stations are on the air have participated in follow-up training involving on-site consultations at the minority-owned stations. While it is the good business judgment and perseverance of the station owners that enabled these stations to go on the air, we believe that ComTrain made a valuable contribution in these cases.

Access to Capital

Another MTDP activity that predates the NII initiatives but nonetheless supports NII objectives is MTDP's ongoing attention to the issue of access to capital by minority telecommunications firms. Access to capital is necessary to increase minority participation in the industry. NTIA is familiar with data from several sources on this subject:

- Capital formation historically has been and remains one of the major economic barriers to full participation in telecommunications markets by small and minority-owned businesses, according to the FCC's Small Business Advisory Committee's 1993 report and other sources.
- "Family, friends, and acquaintances" are the primary source of start-up capital for small minority businesses, according to a 1990 MBDA study. Such sources of capital are not always sufficient and may be adequate only for businesses with small capital requirements. Many businesses that would be part of the NII would require

substantially larger amounts of capital than that, and already-established communications businesses could require substantial additional capital to expand into NII-related businesses.

Due to these concerns, MTDP is studying new strategies for capital formation that can be made available to minority communications firms. With the assistance of outside contractors, MTDP is examining methods used to aggregate capital and attempting to develop new strategies for capital development in telecommunications that can contribute to the dialogue in this area. NTIA expects to release a report on these issues later in the year, and to engage in public outreach on this topic.

Reducing barriers to participation in telecommunications markets, such as problems with access to capital, is a key part of the Administration's objective of promoting private investment in the NII. Consistent with this principle, NTIA plans to file comments today with the Small Business Administration in an SBA proceeding that is important to minority firms involving access to capital. The SBA is proposing to repeal its media policy or "opinion molder" rule, which bars the SBA, with limited exceptions, from making business loans to any applicant in the media business. This rule applies broadly to a variety of enterprises that are or could be part of the NII. Among other things, it precludes SBA financial assistance for small broadcasters, many of which are minority-controlled, as well as small cable companies and programmers.

The original rationale for the media policy rule was that government should not provide financial assistance to media firms in order to avoid governmental interference, or the appearance of governmental interference, with the constitutionally protected freedoms of speech and press. These important concerns can be addressed, however, by basing criteria for financial assistance on whether a firm is credit-worthy, and not with regard to the content of the firm's communications.

MTDP is also extensively involved in outreach to minority communities on capital formation issues. MTDP presents and participates in national and regional conferences on business opportunities and financing for new telecommunications technologies. For example, for the past four years, MTDP has co-sponsored an annual "Fast Starts" conference for entrepreneurs, lenders, and attorneys with New York University Law School and the FCC. These conferences focus on business opportunities in telecommunications. The most recent seminar, held April 27-28, addressed some of the issues involved in developing businesses in Personal Communications Services (PCS) and other technologies expected to flourish as the NII develops.

Recognizing the strong interest of minority firms in PCS, MTDP recently developed a list of businesses interested in strategic partnerships with minority and women entrepreneurs and small businesses interested in PCS. Due to the extensive capital investment necessary to initiate such a new service, strategic partnerships will be critical for minority businesses seeking to become involved in the provision of new technologies. Given the importance of

these issues to the United States, NTIA believes it imperative to encourage further minority participation in the NII. Because new technologies and services, such as PCS, are rapidly developing, minorities must have access to the knowledge, the capital, and the opportunity to become involved in the NII through business ownership and as users.

Personal Communications Services

In recent spectrum management legislation, Congress was very clear in mandating that the FCC ensure that "designated entities," including small businesses and minority-owned businesses, are given the opportunity to participate in spectrum-based services, such as PCS. In a September 14, 1993 letter to the FCC, NTIA encouraged the FCC to develop rules to implement competitive bidding for PCS that will provide greater opportunities for participation by groups currently underrepresented in telecommunications industries. NTIA further noted that the nature and extent of the economic opportunities that will be available in PCS for a wide variety of applicants depends, in important respects, on the allocation decisions made in the proceeding, and NTIA stated that the FCC should keep this in mind in designing its allocation plan for PCS.

NTIA is now reviewing rules released by the FCC on April 20 specifying that mechanisms such as installment payments and bidding credits may be allowed when spectrum licenses are auctioned, and that some blocks of radio spectrum in some services may be set aside specifically for such entities. We note that the FCC is in the process of making decisions regarding the preferences for designated entities that will be available in some

specific services. For example, on May 10 the FCC released rules on preferences for narrowband PCS, which could include services such as advanced paging, messaging, and advanced cordless telephones. Such preferences include bidding credits, tax certificates, and installment payments.

These minority preference policies are tools intended to help firms that might otherwise find it difficult to participate in spectrum-related businesses. They reflect the important policy judgment that some entities may have capital disadvantages and may not be able to participate in spectrum-based businesses without preferences.

We agree with the FCC that these competitive bidding rules help promote the goals of economic development and universal access to telecommunications services, consistent with the Administration's principles for further development of the NII. We also note that it is important to us that the government's policy enriches and empowers entire communities, rather than making a few individuals wealthy.

The FCC faces a difficult task in addressing competitive bidding issues, and has appropriately determined that designated entities should be considered separately from the traditional players. NTIA is currently reviewing the Commission's specific policies and determining whether to take positions on any of the rules.

CONCLUSION

In our generation, we can realize the vision that telecommunications technology can enhance the lives of all Americans, not just the privileged. We can ensure that all Americans -- including members of minority groups -- will have access to an advanced information infrastructure. This Administration is determined to achieve these goals. Under the leadership of Secretary Brown, NTIA will follow through on that commitment. We look forward to working with you as we address these goals together.

Thank you for the opportunity to present these views to you today. I would be pleased to respond to any questions that you may have.